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CANADA AND NAFTA

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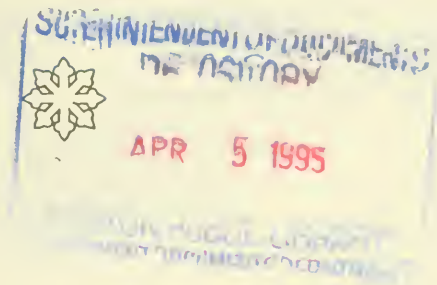
Canada and NAFTA, 103-1 Briefing...

BRIEFING
BEFORE THE
THE SUBCOMMITTEE ON
WESTERN HEMISPHERE AFFAIRS
OF THE
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

NOVEMBER 10, 1993

Printed for the use of the Committee on Foreign Affairs



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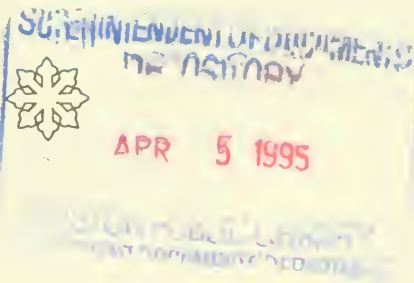
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EDITOR'S NOTE: The prepared statements and other information referred to will not be a part of the printed hearing record.

(III)

BRIEFING ON CANADA AND NAFTA

WEDNESDAY, NOVEMBER 10, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON WESTERN HEMISPHERE AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to call, at 2:45 p.m. in room 2172, Rayburn House Office Building, Hon. Robert G. Torricelli (chairman of the subcommittee) presiding.

Mr. TORRICELLI. Thank you very much for joining us today, and we apologize again for keeping you waiting. It is both a busy time of the session and a particularly busy day on important issues. We appreciate, though, very much your time.

MANY LINGERING QUESTIONS

As the Congress comes to a moment of judgment on the most portrayed legislation in probably a decade, there are many lingering questions. Among those impacting the votes of many members is the question of the Canadian elections, the Canadian views on NAFTA, how indeed if this treaty is approved it could indeed be altered by future Canadian positions; and so this is an area of interest with some rather profound implications for what promises to be a very close vote in the Congress.

And so I ask you, in presenting your views, to be precise and to be careful in that there are so many members that are prepared still to make a judgment or change their judgment, and the question of changes sought by Canada will weigh heavily on their minds. This has been structured in a discussion format rather than as a formal hearing to allow more time to simply to have a dialogue rather than presentations.

And so, with that, if any of the three of you would like to make a brief opening comment, we would be glad to have it. Please do remember the informal nature of the discussion and that we would simply like to hear some honest views.

Who would like to begin?

STATEMENT OF JAMES HOOPER, DIRECTOR, CANADIAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. HOOPER. Thank you, Mr. Chairman. My name is Jim Hooper. I am of the Director of Canadian Affairs in the Bureau of European and Canadian Affairs in Department of State. I am pleased to be here. With me is Katherine Christensen, who is responsible for Canadian economic issues in our office; and I am also pleased to approach the subcommittee in the distinguished company of Pro-

fessor Charles Doran, one of the preeminent American academic experts on Canada.

NAFTA CONTAINS THREE PARTIES

People tend to forget that NAFTA contains three parties: the United States, Mexico, and Canada. The decision by the House Foreign Affairs Subcommittee on Western Hemisphere Affairs to hold this briefing session will help to correct this impression. NAFTA has passed through all of the—in Canada.

NAFTA has passed through all the parliamentary hurdles; it now awaits one final step called “royal proclamation” which is done by the Queen’s representative in Canada, the Governor General. He will act at the request of the government. This can be compared in the United States to publication in our Federal Register. It is a technical step, but it requires a political decision by the new government.

Congressman Torricelli, as you know, I know you followed the Canadian elections. As you are no doubt aware, NAFTA was not the key issue in that campaign, whereas in 1988 the election turned on the U.S.-Canada Free Trade Agreement. In 1988, the Liberals opposed free trade. In 1993, the Liberals campaigned for improvements in NAFTA within a framework fundamentally within the agreement. In fact, Jean Chretien, Canada’s new Prime Minister, when pressed by opponents of free trade during the campaign, urged, if they oppose NAFTA, they should vote for the new Democratic Party.

The October 25 election resulted in a Parliament with four of its five parties supportive of free trade: the Liberals, the Bloc Party from Quebec, the Reform Party largely based in western Canada, and the Tories. The fifth party, the New Democratic Party with 9 of 295 members of Parliament opposes free trade.

Since then, the new Prime Minister has explicitly supported NAFTA and appointed a pro-free-trade Cabinet. He has reminded Canadians that Canada is a trading nation with one-third of its GNP dependent on trade. He has also reminded American officials that Liberal concerns about free trade need to be addressed in an appropriate manner.

Let me review these Liberal concerns; the Liberals mentioned five in their campaign manifesto: environment and labor standards, energy, definition of subsidies, definition of what constitutes dumping. The Prime Minister said that he is satisfied with environment—with the side agreements on environment and labor. Subsidies can be handled in the Uruguay Round of the GATT.

Dumping where lack of a U.S.-Canadian consensus on what constitutes illegal dumping causes trade friction and can be addressed bilaterally; and energy obligations undertaken in a broader multilateral framework—that is, the International Energy Agency—are more stringent than NAFTA.

In summary, we respect the views of Canadians and we have listened to the concerns of the new Canadian Government. I do not wish to understate Canada’s concerns nor do I wish to understate the opportunities to address them in the context of our normal bilateral and multilateral relationships.

Thank you.

Mr. TORRICELLI. Ms. Christensen.

Ms. CHRISTENSEN. Dr. Doran.

Mr. TORRICELLI. Dr. Doran.

STATEMENT OF DR. CHARLES DORAN, DIRECTOR OF CANADIAN STUDIES, SCHOOL FOR ADVANCED INTERNATIONAL STUDIES OF JOHNS HOPKINS UNIVERSITY

Mr. DORAN. Well, thank you, Mr. Chairman. I am very happy to be here, and I think this is a very useful function. I hope it will be useful in your context. I think it, in the larger context, will be useful in terms of Canadian-U.S. relations.

I will just make three points quickly. First of all, both in Canada and in the United States it seems to me the current discussion about NAFTA is less about trade than about politics. The election there was—brought about enormous change where the governing party went from a majority to two seats. Then the New Democratic Party, which was the party on the left, also was reduced to less than a formal official role.

Two new parties became opposition parties, and they are parties that are quite in opposition. One of them, the principal one from Quebec, having the position that it is—it plans—it would like to see Quebec leave the union. The Reform Party in the West also has a position which is quite opposed to the Federal position.

THE LIBERAL PARTY HAS A STRONG MAJORITY

Now, the Liberal Party itself has a strong majority and that means a great deal in Canada, but one should not underestimate the significance of economic issues in this vast political change that took place in Canada.

Second, although the new Liberal government will express its trade concerns in terms of NAFTA, it seems to me these concerns really lie deeper. They lie in the bilateral trade dispute agenda, and even if NAFTA were not passed, it seems to me that those issues are going to be present and be expressed one way or the another. I think that the Liberal government takes them very seriously, and I would say that there has been a qualitative change in emphasis relative to the previous government, Conservative government in terms of these kinds of issues.

Finally, third, I would say that Canada, it seems to me, is very realistic about economic and trade issues. I think it is going to consider trade alternatives, it is going to consider the opportunity costs. What it is going to do is to look at the prospect of what would happen if NAFTA is not passed; and I think what it is likely to think and believe is that the United States, leading the world in this regard, will become a bellwether of change and that the possibility of protectionism is grave. Canada will be the first to feel the increased effects of that protectionism, so in the end, despite the seriousness with which the Liberal government has concerns about NAFTA—in the end, it seems to me that Canada will want to be a part of this agreement, assuming it is passed here and will with some clarification, some additions, discussions later—will opt for NAFTA.

Mr. TORRICELLI. Ms. Christensen.

Ms. CHRISTENSEN. I don't have a statement.

Mr. TORRICELLI. In the Canadian elections, I take it the principal debate was really focused on reaction to the Canadian-American agreement more than it was dealing with the prospects of NAFTA. Is that a fair assessment?

Mr. HOOPER. It was not a key issue during the campaign.

Mr. TORRICELLI. NAFTA was not?

Mr. HOOPER. That is right.

Mr. TORRICELLI. Largely, when they talk about seeking changes and problems and trade, they are really talking about the Canadian-American agreement, not the prospect of NAFTA.

Mr. DORAN. I think the reason for that is that Canada has about 2 percent of its trade with Mexico. It has 70 percent of its trade with the United States.

Mr. TORRICELLI. I understand that, but that isn't really controlling; and on what are the two central issues, which are the subsidies—the subsidy definitions with regard to wheat—and then access of its energy industry, I take it are the two principal issues. Is that correct?

Mr. HOOPER. Yes.

Mr. TORRICELLI. Does NAFTA in any way exacerbate or change those problems from a Canadian perspective, or are they problems because of the bilateral agreements which are merely maintained under NAFTA?

Ms. CHRISTENSEN. In both the subsidies and the energy issues, Canada is seeking to address their problems that arose—that were not addressed in the original free trade agreement between the United States and Canada. On the energy issue, there are certain obligations to continue supplying each other in the free trade agreement that are continued unchanged in NAFTA. And so they may have been seeking adjustment of things that they didn't like from the old agreement, but NAFTA will not make them worse.

Mr. TORRICELLI. The issues that have been central to the American debate of labor rights in Mexico and environmental concerns and the exportation of the environmental abuse, did they not elicit from the Canadian political parties concern or pledges of changes, so that you do not think they will be on the agenda when heads of state meet on the 19th?

Mr. HOOPER. Again, the new Prime Minister has said that he is satisfied with what has been done.

Mr. TORRICELLI. On both of those scores?

Mr. HOOPER. Yes, on labor and the environment.

Mr. TORRICELLI. A failure of NAFTA to be enacted by the Congress next week, what does that—does that in any way impact how the Canadians then approach any renegotiation of the Canadian-American agreement? In other words, does the rising concern about the prospect of protectionism lead them to seek less in changes because of an increased concern, or potentially more?

Mr. DORAN. Well, I think that to some degree the Liberal government is responding to the campaign promises that were made to the Canadian people to get changes, to obtain some kind of changes in NAFTA. When you actually look at the changes that now are being discussed there, they all relate to the bilateral trade agenda, and they would exist there even if NAFTA were not an issue.

It seems to me that deeper than that, these issues in some ways would be worsened, it seems, if they are not in some way open to some kind of continuing dialogue and discussion if NAFTA were not there, because indeed there is always the prospect that there will be more such issues and that there is going to be more protectionism. So it seems to me that the Liberal government, looking through this, is caught between its promises that it has to live up to, to discuss and look particularly at the question of defining subsidies more carefully. I think the energy issue is more complicated, because in fact—

Mr. TORRICELLI. They are largely looking, I take it, in the bilateral agreement, to make the energy question look more like NAFTA, is that correct, where the Mexicans have retained a reserve on the issue of foreign investment in energy?

Mr. DORAN. They basically think that Mexico got a pretty good deal in terms of this agreement.

Mr. TORRICELLI. That is why—I don't know why you are shaking your head, Ms. Christensen—Mexicans have a reserve on not allowing foreign investment in energy. Isn't that what the Canadians want?

Ms. CHRISTENSEN. The Canadians are predominantly concerned about their obligations to continue supplying energy as the Mexicans have gained an exemption in NAFTA. Mexico—Canada has not taken on new obligations with regard to maintaining the proportional supply with the United States under NAFTA, that is under the FTA and under the International Energy Agency, that international energy program, they would have had those same obligations.

Mr. TORRICELLI. That is separate to the question of U.S. investment in Canadian natural resources and in the energy sector?

Ms. CHRISTENSEN. If you are—

Mr. TORRICELLI. That is what we are talking about.

Ms. CHRISTENSEN. Investment in energy sector has been unilaterally liberalized by Canada in the last few years.

Mr. TORRICELLI. I thought that was a concern from the government. Am I missing something here?

Ms. CHRISTENSEN. I believe the concern is Mexico's supply obligations, in the event of a supply problem or supply shortage that Mexico is not subject to the same obligations as Canada.

Mr. TORRICELLI. That is a separate problem.

Is this me or is there something wrong here?

Dr. Doran, did I not read this in the Canadian elections that they are concerned about the level, the rising level of U.S. investment in Canadian energy supplies.

Mr. DORAN. Well, in the past—I think recent past—they were more concerned about having more investment than less. So the real issue, as far as I know, is that they are worried about a situation during a crisis where they would be called upon—with some qualifications would be called upon to bear the burden of this equally with the United States.

The Mexicans, of course, have a very different energy situation because of their history and their constitution, and the argument was that Canada would like to have more of what the Mexicans ended up with.

Mr. TORRICELLI. That is my question. They would like the bilateral agreement to look more like NAFTA.

Mr. DORAN. That is right and, in fact, it looks like they are asking for kind of a revision in the free trade agreement, it sounds that way, but via the NAFTA route.

Mr. TORRICELLI. On this issue of the wheat question and the subsidy definitions in the bilateral agreement, I don't know how that is dealt with in NAFTA with the Mexicans. Is this better or differently defined?

Ms. CHRISTENSEN. The subsidy arguments that are raised are not specific for wheat. I think that the U.S. wheat interests are complaining a lot more than Canadians on the wheat issue, of course, because we have no complaint. Subsidies complaints raised by the Liberals cover a wide range of activities such as regional subsidies, regional development policies and so forth, so that is not really a wheat-specific problem.

There is one subsidy issue in the wheat problem which is the question of rail subsidies, and also the operation of the Canadian Wheat Board that is currently undergoing an audit, and the outcome of that audit might help us determine if the Wheat Board operations are a subsidy. That is still ongoing.

Mr. TORRICELLI. Mr. Smith.

Mr. SMITH. Thank you very much. I want to thank our panel for their testimony. I have a couple of questions. Is there a realistic time line for renegotiation by the new Prime Minister in Canada? As he has said in his post-election interviews both the Associated Press and others have carried, if he wants changes—obviously, you probably addressed that earlier, before I came—but over what time period does he think this can be accomplished?

Secondly, he has threatened to pull out of the existing trade agreement between the United States and Canada, apparently, if he does not get what he wants with the renegotiation.

Mr. HOOPER. Let me just say quickly, and then perhaps Chuck can say something, I think the Prime Minister has not used the term "renegotiation" and I think that would weaken the observations I made in the beginning of my presentation. I think the point we want to make is, we think there are ways to deal with the Canadian concerns which are real, which are genuine, without renegotiating the agreement. That is through the various bilateral, multilateral relationships we have with Canada.

Mr. SMITH. Would they likely take on a side-bar agreement format?

Mr. HOOPER. I think there are officials who have been discussing various ways of addressing this. I don't think any decisions have been made. My impression is that people want to move reasonably quickly. The Canadian Government itself does not want to—is very much aware of what is going to happen here on November 17, does not want to, wants this to be an American decision; that they are not involved in this, and it is taken on the basis of America's own interests, and they don't want to be involved in that in that sense.

I think there is a general understanding that people will move reasonably quickly after NAFTA's passage.

Mr. SMITH. In the possibility of the 89 agreement being revoked, do you think that is a realistic threat?

Mr. HOOPER. No.

Mr. DORAN. I think, Congressman, that the—there is not a time line, but obviously there is a promise, a campaign promise that has to be lived up to by this Government in Ottawa.

I think it is the case that the terms have changed, not surprisingly, after the election. It is important to know who was appointed to the finance post and the trade post. Both of these people are recognized as committed to free trade. But this doesn't minimize the fact that there has to be some discussion on those two points, the issue of energy and particularly the issue of subsidies. I think that is the more serious one.

What the Canadians, I think, are doing is looking at a situation where they fear that there is going to be more and more use of countervailing duties because there is a misunderstanding about what constitutes a subsidy; and with 70 percent of their trade with the United States, one can understand their anxiety and so—but of course they recognize that in that free trade agreement with Canada—Canada-United States, there was an effort to define subsidies. Five years were given to that and that effort was, so far, unsuccessful.

So there is a technical problem of being able to do it, and then there is the political question, and I don't think that is going to go away. I think that is going to be there and be discussed, and depending upon how it is handled, it is not too bad a problem or it becomes a worse problem.

Ms. CHRISTENSEN. Just to add on that, that effort to define subsidies that was going on for a few years after the U.S.-Canada Free Trade Agreement came into effect, but the work going on in the Uruguay Round GATT negotiations are also developing a subsidies code, so we stopped the bilateral effort to focus on the work in Geneva. And, hopefully, this thing will work out right, by December 15 we will have a settlement, and I will accept that subsidies code and apply it bilaterally as a global relationship.

Mr. SMITH. One other question: We had wildly differing estimates as to what the job loss will be here in the United States, particularly in the manufacturing sector. What do the Canadians project to be their loss or gain of jobs or is there a similar kind of—whatever study you want, you can produce it, to show as a consequence of what will happen if this is approved.

Mr. DORAN. I think the Canadians feel that they have made the adjustments that count. The adjustments were made in the Canada-U.S. Free Trade Agreement. They were significant. They were costly. They have been made. Now they are looking to get the benefits.

In terms of the agreement with Mexico, much of the discussion that we are having here has not been important in Canada—for example, with regard to investment, with regard to job loss. I just think that the free trade—the NAFTA agreement is much easier for them to handle than the free trade agreement was.

In some ways, the discussion we are having here now with NAFTA is exactly what they had with the free trade agreement.

Mr. SMITH. Understood.

Ms. CHRISTENSEN. At the C.D. Howe Institute in Canada, Daniel Schwanen recently released a study of what have been the eco-

nomic effects of the U.S.-Canada FTA on job creation or job decrease. They found net marginal job decrease, job loss, a net, slight; but they found—and this is amazing—200,000, 250,000 jobs are created or exports increased by the dollar amount to support 250,000 jobs in the high-tech sector, the high-wage sector.

In the United States, we know that these jobs pay 17 percent more, on average, than the jobs that are lost; so it is creating the right kind of jobs even if the net effect is slightly negative in the Canadian case.

The Canadian case was exacerbated because the free trade agreement came into effect at the same time as a major recession, so we can't really attribute the slight job decrease to the free trade agreement but to a whole bunch of things that were happening in 1989, 1990, and 1991.

Mr. SMITH. Very good. Thank you very much.

Mr. TORRICELLI. Mr. Menendez.

Mr. MENENDEZ. I just want to explore how much—I listened to Mr. Hooper suggest that this had nothing to do with the Canadian elections. And everything that I have read would indicate that that is not necessarily the truth. If you look at the responses immediately after, press interviews, with the new Prime Minister's comments, you would be led to believe, notwithstanding who he appointed to his Cabinet, that he is seeking to renegotiate certain parts of this agreement. And that has been alluded to here by some of the other members, and I know that in his campaign, he criticized both the existing U.S.-Canadian trade agreement and NAFTA.

He made a pledge, as I understand it, to renegotiate NAFTA. His party's platform in the past and the comments in the present during the course of this election were to renegotiate NAFTA. When he had an opportunity to talk to the President, amazingly, he has had absolutely—supposedly nothing to say about NAFTA; yet right on the 19th, it is widely reported that in the Pacific Rim meetings he intends to raise the question as it relates to NAFTA.

And I don't know how one—here is a *New York Times* international article that appeared on October 28, which says, Chretien says he wants change in the trade accord.

"Fresh from the stunning triumph of his Liberal party in Canada's general elections, Prime Minister-designate Jean Chretien said today he wants changes in the North American Free Trade Agreement and may not implement the pact without them."

This is skipping around the article. "Elaborating on the Liberal position for the first time, Mr. Chretien said he would press for changes to protect Canadian energy reserves and to define rules on unfair subsidies and unfairly low prices for exports."

And it goes on to talk about, "Canadians have asked for such divisions because of what is seen here as capricious harassment by the United States. Canadians argue that American charges that Canada unfairly subsidizes exports of steel, pork, lumber, and other products are arbitrary."

And it goes on to talk about, "although the Liberal party platform had called for negotiation," they talk about how far it would be pushed but still said that they called for a renegotiation.

And his final statement, "My position is very clear, he said, 'no law is effective until proclaimed. We still have this option.'"

Now he represents that he doesn't want to get involved in U.S. politics right now, which is how timely the 19th is, 2 days after the House is scheduled to vote, but that doesn't mean to me that this is not part of the Canadian election, that they did not influence the results of that election and that in fact there isn't a sincere desire by the newly elected Canadian Government to make some significant changes which, in fact, are—the latest article talks about a discussion of maybe a commitment to renegotiate in 1 year, this is where we can get NAFTA through, but if Members of Congress knew we were going to have a renegotiation in 1 year, that is a much different set of circumstances.

How can you say that in fact this had nothing to do with the Canadian election?

Mr. HOOPER. What I said was that it was not a key issue during the campaign.

Mr. MENENDEZ. How can you say it was not a key issue during the campaign in the context of all these comments?

Mr. HOOPER. Well, in 1981 the only issue virtually in the campaign was free trade, and the Liberals opposed the free trade agreement the U.S.-Canadian Free Trade Agreement. On this issue, while they supported—they supported free trade, but they wanted improvements in the NAFTA; and I think they are prepared to explore with us ways to improve on the NAFTA. They have also said that five of their concerns from their—two of the five concerns from their manifest today have been addressed by our—by the side agreements on labor and the environment.

The concern about defining subsidies could be addressed in the GATT, in the Uruguay Round, through a worldwide agreement on what constitutes subsidies. I think energy can be addressed, and there are various frameworks for addressing that. And I think the same thing for what constitutes dumping, there are various ways of doing that.

I don't think—what I am trying to say is they have concerns. Their concerns have registered with us, but there are ways to address their concerns without renegotiating the basic agreement, and we do not—we have received absolutely no impression from the new Canadian Government that they want to see NAFTA defeated or the vote deferred in Washington.

Mr. DORAN. Congressman, I think you are absolutely right that the new Prime Minister did, in his campaign, use the term repeatedly, the need for "renegotiation of the treaty." In the last couple of days, we haven't heard that term used. There have been other expressions of need for changes in a different kind of language, but very meaningful language.

I don't think there is any diminution in interest in getting us to address the subsidy question. But there are lots of routes to that, and I think that the Canadians are extremely realistic about trade in commercial matters. If something took place that would undermine the NAFTA, this would have, in their view, consequences that would go well beyond just their trading relationship and would impact on them in terms of possible increase in protections; and that is exactly the opposite way that they want to go.

What they want—they are walking a very narrow line here between wanting seriously to get changes, very specific ones, but at the same time not wanting to upset the fundamental framework and, most pointedly, not being left out of this agreement, because in fact the agreement is set up in such a fashion that if Mexico and the United States wanted to go ahead, they could go ahead and Canada would be out. That is not what Canada wants.

Mr. MENENDEZ. Has the Canadian Government spoken to our Government and said, they are willing to postpone their concern until after the Congress's vote?

Mr. HOOPER. I think the—we have already begun—there have already been discussions between officials of the Canadian Government and our Government on this, and I think it is going to take a while to sort things out, and I think these are just preliminary discussions that have been taking place. They have not reached any final agreement on things.

Mr. MENENDEZ. For the discussions with the newly elected government?

Mr. HOOPER. Yes. Again these are ministers who have just taken office, you know. We are not trying to press them to make urgent decisions, and they don't want to make urgent decisions.

Also, I think discussions between officials are going on and I think they are in a exploratory, preliminary phase.

Mr. MENENDEZ. Have we made any commitments to have a renegotiation of parts of the agreement for next year?

Mr. HOOPER. No, we have not.

Mr. MENENDEZ. Have we had discussions about possibly having parts of renegotiation for next year?

Mr. HOOPER. Again, we are prepared to discuss and have, as I said, had preliminary discussions with Canadian officials on their concerns.

I don't think the issue of renegotiation—I don't really want to characterize these discussions beyond that, but the issue of renegotiation does not—I think it is fair to say, it does not arise.

Mr. MENENDEZ. Well, there are press accounts that say the government, the Canadian Government is suggesting that one of the reasons that their conversations are, or their statements are, somewhat weaker than during the process of the election is that in fact they have let it be known to our Government that in expectation that there will be some renegotiation next year, that they might be willing to not take a more public position than they have.

Is that part of these preliminary discussions?

Mr. HOOPER. Again, Congressman, I don't want to—with all respect, I don't want to suggest that I am privy to every last detail of these discussions. I don't want to steer you in the wrong direction.

My understanding is that these are preliminary, no decisions have been made, that what we are trying to convey to the Canadians is that there are various ways of addressing their concerns bilaterally, multilaterally, that do not have to involve the renegotiation of NAFTA.

Mr. MENENDEZ. But they would involve issues that presently are covered by NAFTA?

Mr. HOOPER. Well, I think——

Mr. MENENDEZ. For which NAFTA creates the basis of their concerns in the first place?

Mr. HOOPER. Or perhaps which NAFTA itself does not address; that is, such as the definition of subsidies which can be done in the context of GATT.

We are trying to conclude the Uruguay Round by December, and we hope to have a definition of subsidies in that. Now, I think—again, I don't want to be in the position of speaking for the Canadian Government, but I think if the subsidies issues can be addressed satisfactorily in the Uruguay Round, I think that is fine for us, and I think it is possible that will be fine for the Canadian Government.

Mr. MENENDEZ. One last question, Mr. Chairman.

What have we said to the newly elected Canadian Government to assuage their fears? How far have we gone?

Mr. HOOPER. Again, I think what we have tried to convey to them is that we understand that they have concerns, that we are prepared to listen to these, to their concerns that they have registered in Washington, and that there are various ways of dealing with these concerns; and I would just leave it at that—

Mr. MENENDEZ. Well, that raises—

Mr. HOOPER [continuing]. Short of renegotiation of the agreement.

Mr. MENENDEZ. Well, that raises in my mind—I mean, you know, one thing is to say you are going to have it open, in the air. The other is to say that you are willing to in fact make some changes now; and in that context, it is of interest to, I think, Members of this House as to where is it that we are going with this prior to voting on NAFTA?

I mean, are we offering things to the Canadian Government so that they in fact do not pursue what, to many, was their obvious course during the election and now has been mooted. Has it been mooted because the U.S. Government has been willing to make certain statements and make certain commitments in order to mute what would be a very strong voice in terms of the consideration of many of this House, which seeks to make changes to the agreement to make it better?

Mr. HOOPER. What the new Canadian Government wanted to find out from Washington was whether their concerns had registered here, whether we were prepared to listen, whether we were prepared to begin to explore with them ways of addressing those concerns.

Now, I think we had tried to convey that we are—that we are prepared to address those concerns without renegotiating NAFTA, that there are ways to do this; and I think they are—I think we are off to a good start with them at a preliminary stage, at a beginning stage of trying to explore ways of addressing their concerns. I think they say we are not ignoring their concerns. Beyond that, I wouldn't go any further than that.

Mr. DORAN. I would be very surprised if there were any commitment, any kind of renegotiation on this side, and whether in fact there had been an assumption that there had been such a commitment, or there would be such a commitment, on the Canadian side.

Now that leaves lots of room for talks about clarification, definitions, and so on, particularly with regard to subsidies.

There is another factor here, Congressman, if I might, I would suggest—and this is what a dispute situation will look like in trade terms bilaterally between Canada and the United States in the next 3 or 4 months—if there are some highly visible disputes of the sort involving wheat, involving steel, involving soft wood lumber, that kind of thing will put a lot of pressure on the Canadian Government, obviously, to take a bigger, heavier stance.

I don't think that is the way they want to go, and nobody can know what is going to happen to those disputes, but let's not ignore the fact that the way in which the relationship is managed and the kinds of disputes that come up are going to have a big effect on what their expectations are and their demands are.

Mr. MENENDEZ. Dr. Doran, you and I can have suppositions. Mr. Hooper is the one who has information, and he only wants to go so far, to the extent that what he shared with us raises more questions in my mind than answers them.

Mr. Chairman, thank you.

Mr. TORRICELLI. Thank you. The auto component of NAFTA in its domestic content, is it significantly different from what exists in the bilateral agreement, recognizing that the bilateral agreement also has responsibilities for reduction?

Ms. CHRISTENSEN. Yes. The new rule is significantly different from the old rule. Now, it is—in terms of adding Mexico in, you know, the auto relations with Canada go back to the 1965 auto packet. We have essentially had free trade with Canada on autos and auto parts for almost 30 years.

Mr. TORRICELLI. Not exactly free trade; it was without tariff, but it requires production in each country. It is government-related. It is far from free trade.

Ms. CHRISTENSEN. That is correct. It has been tariff free, full integration of industry back and forth across the border, a pretty successful arrangement. Adding Mexico to the mix changed everything, because I don't think I need to go through the details of Mexico's protectionist auto situation.

The rule of origin has changed from 50 percent North America—well, OK, when it was the bilateral relationship it was 50 percent United States and Canada and the way that was calculated included roll-up, which is kind of a complicated—are you familiar with this?

Mr. TORRICELLI. Yes.

Ms. CHRISTENSEN. It included roll-up.

Mr. TORRICELLI. So the Canadian-American agreement required 50 percent content from the two countries, but the NAFTA will now go to 60.

Ms. CHRISTENSEN. And 62.5 percent eventually. But the thing that is better for people planning their automotive production is that the rules are made much clearer because it specifies major components that will have to be produced in the North.

Mr. TORRICELLI. It does not just leave it to the 62 percent, but it specifies components.

Ms. CHRISTENSEN. It helps the calculation because it was like a surprise, and I am sure you are aware of the Honda audit.

Mr. TORRICELLI. Is this not a Canadian issue now? By the new government, this has not been raised or is not a concern?

Ms. CHRISTENSEN. Not a word on it.

Mr. TORRICELLI. Great. Dr. Doran, I will ask you a question because in deference to your two colleagues there are no chances under which they would answer this question or shouldn't.

Let me shift the focus for a moment to Quebec. Describe for me how it is you believe the Quebec party will now proceed on the question of separation.

Mr. DORAN. I think the Bloc Quebecois, which will probably be the official opposition party, is completely dedicated to separation or sovereignty as it is defined in various kinds of ways.

Mr. TORRICELLI. I understand that. Give me the timing and sequence as you would predict it.

Mr. DORAN. I think that, given the kind of structure that the Canadian Government has, it is very difficult for the opposition party to do much more than register its position and talk to the press and so on. I don't think there is an ability of that party to force the government into anything, so that means that now all the action shifts to Quebec itself.

There is an election coming up probably within a year. If the Parti Quebecois, which is also the nationalist party, is out of power if it were to win that election, it has said officially, publicly, that it would call a referendum within a year, let's say 2 years out, with a clearly worded statement—this time not an ambiguous one.

Mr. TORRICELLI. So the time we are looking at is an election in a year, and they would call a referendum in a year. So we are now 2 years out, which would be similar to the previous resolution on the question of sovereignty or not.

Mr. DORAN. Well, similar. I think it will be very much more tightly worded and create more of a choice for participants, so they know what they are voting on. If this were to occur today, it would not, in my estimation, prevail.

I think—excuse me. I just want to say one other thing. I think the Parti Quebecois might win the election. That, by no means, means they will win the referendum.

Mr. TORRICELLI. In the interim, do you anticipate a second Canadian effort here, redefining the division of constitutional powers in an attempt to save the federation; or is this government less likely to make the efforts that Mr. Milroy has made.

Mr. DORAN. Mr. Chretien has made it clear in all of his campaign statements and in his subsequent statements that he thinks Canadians are tired of the constitutional issue and that what they are really concerned about are jobs. That is the focus he wants to give to it.

Mr. TORRICELLI. You do not anticipate any convening of provincial authorities, any constitutional session, any attempt at resolution, but simply to move forward under the current arrangement.

Mr. DORAN. Yes, Congressman. In fact, I would say that the objective of the Federal Government is to try to focus on these other issues so as not to be forced into raising the constitutional issues again.

Mr. TORRICELLI. Now, I assume that in what you perceive to be the unlikely event that there were a separation in several years

that both the opportunities and obligations of NAFTA and the bilateral Canadian-American agreement do not go with this new entity, they are a member and will enjoy the privileges and bear the responsibilities of neither.

Mr. DORAN. That is my understanding, sir, but very much the outcome——

Mr. TORRICELLI. Is there information to you to the contrary?

Mr. DORAN. I think there are all kinds of views that are being expressed in Quebec, some of which are to the contrary, that would very much be determined presumably by the U.S. Government and the Federal Government in Canada and obviously any other entity. As far as I know, the cards are all out there and they, probably after a session would end, would be totally reshuffled. Nothing is certain.

Mr. TORRICELLI. I don't think anybody argued that the Confederated States of America took with them the bilateral treaties between the United States and the various European powers, but that would be a relevant comparison if Quebec were ever to claim access to NAFTA or the bilateral agreement in its independence.

Mr. DORAN. Congressman, I think that observation would carry a lot of weight and would be of much interest in Canada.

Mr. TORRICELLI. The American investment in Quebec and the continuing American reliance on electric power from Quebec, do these raise any concerns in your mind, given the prospects of political change in Quebec or do you so discount the possibility of referendum that it should not enter into the equation?

Mr. DORAN. No. First of all, I don't discount the possibility of a referendum. I think is it possible that it will occur.

Mr. TORRICELLI. I think a successful one.

Mr. DORAN. And even then things are so volatile, it is difficult to predict what the outcome would be then. I think there is no doubt that this issue of investment is on the minds of everybody, on the minds of Quebecers, on the minds of Canadians in general, the Canadian business community, and our own community.

And indeed if there were a protracted kind of set of problems, then indeed there could be dual flight and so on; but I think, on the other hand, everybody looking at this will also try to make whatever outcome occurs a smooth one. They will try.

Mr. TORRICELLI. Finally—I know you have addressed this before, but let me get it clear in my mind because it is so central to why we have you here today. If indeed in the meeting on the 19th the Prime Minister and the President reach some accord on the energy issue and the subsidy issue on wheat, are these done as an exchange or—what are the options available in how this can be achieved?

Can it be done simply by an exchange of letters that led to reinterpretation? Does it go to the body of the agreement or are there side agreements that serve as substantive amendments? What is the legal form this agreement would take?

Mr. DORAN. I will just say one thing, and then I will turn it over to my colleagues here on that.

It seems to me that one has to be very clear there is a difference between the subsidy issue as a broad issue which is being raised by the Liberal government and the specific problem of the wheat

issue. I am not saying they are not interlinked. I don't believe that they are interlinked, but they are separate at this point and presumably call for separate analysis and response.

Mr. TORRICELLI. And they are as a—as a common problem, are not simply settled in your mind by the United States pledging to reinterpret the use of the term “subsidy” and would involve substantively more than that?

Mr. DORAN. If the United States were prepared to reinterpret the term of “subsidy” and define it in such a way that certain things are included and certain things are excluded, that would go a very long way.

Mr. TORRICELLI. That can be resolved by simply an exchange of letters? That doesn't go to the substance of the agreement?

Mr. DORAN. That is correct, Congressman.

Mr. HOOPER. I am not sure I should add anything.

Mr. TORRICELLI. You are not required to.

Mr. HOOPER. Let me leave that where it is.

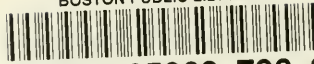
Mr. TORRICELLI. All right.

With that, this was very useful. I appreciate your patience. I apologize again for the delays, but it was very useful for us to have critical comment on a critical issue. Thank you.

[Whereupon, at 3:35 p.m., the subcommittee was adjourned.]



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